

Connecticut Tax News

quarterly

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From The Commissioner *Gene Gavin*

Taxation of Electronic Commerce and Factor Relief for Manufacturers

DRS has been hard at work on two issues that could have major tax implications for the future—one on the national scene and another for Connecticut only.

The first area of concern has been the taxation of electronic commerce, brought into the public arena because

of the federal Internet Tax Freedom Act of 1998 (ITFA). There is little doubt in my mind that this is the most significant tax policy concern to begin the

next millennium. Since well before the passage of ITFA, we have been participating in national discussions of the issue of sales tax as it applies to "remote" sales (mail order, television shopping, etc.)

as members of the Multistate Tax Commission (MTC) and Federation of Tax Administrators (FTA). The current dialogue on the federal level has made it obvious to some tax professionals that some federal legislators may have little understanding of the potentially severe economic havoc that will result from a federal blanket exemption of electronic commerce from state and local sales and use taxes.



*photo not
available in
pdf version*

Internet Purchases Still Subject to Sales and Use Taxes

Businesses selling or purchasing taxable goods via the Internet should be aware that Connecticut sales and use taxes still apply to these transactions. This is not a new tax policy, but is covered under existing Connecticut laws that include all remote sales transactions—mail order, TV shopping channels, phone shopping, etc.

Anyone who purchases taxable goods or services for use in Connecticut and does not pay Connecticut sales tax **must** pay the use tax. When a purchase is made and Connecticut sales or use tax is not paid to the retailer, the use tax must be paid by the purchaser directly to DRS. The use tax, like the sales tax, has been in effect since 1947, and it applies to any purchase of taxable goods or services for use in this state, except purchases made for the purpose of resale.

Use tax applies to the purchase or lease of assets such as furniture, equipment, machines, instruments and computers. It also applies to the purchase of goods such as office supplies, paper, stationery items, certain publications, packaged software, and books that are used by the business. Goods and services that are used in carrying on a business are being consumed by the business, and the tax must be reported and paid on them.

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Changes to the 1999 Connecticut Tax Booklets

The 1999 Connecticut tax booklets will soon be mailed to taxpayers and made available on the DRS Web site (www.drs.state.ct.us), at the Department's walk-in offices, in most banks and post offices, and at Connecticut town halls.

Some of the most important changes are identified in the front pages of each tax booklet. The following is a description of all major changes to 1999 Connecticut tax booklets.

FORM CT-1040EZ TELEFILE, FORM CT-1040EZ, FORM CT-1040 AND FORM CT-1040NR/PY

Tax Rate Decreases

For taxable years beginning on or after **January 1, 1999**, the **income tax rates for individuals** whose filing status is:

- *Single or Married Filing Separately*, **3% of the first**

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The Mission of the Connecticut Department of Revenue Services is to administer the tax laws of the State of Connecticut and collect the tax revenues in the most cost effective manner; achieve the highest level of voluntary compliance through accurate, efficient and courteous customer services; and perform in a manner which instills public confidence in the integrity and fairness of the State's tax programs.

In November, Connecticut held what I believe to be the first ever state-level summit on electronic commerce. DRS proudly co-hosted the session with the Connecticut Conference of Municipalities (CCM) at the Legislative Office Building in Hartford. Joining us to discuss our concerns were representatives from Connecticut municipalities, private sector tax professionals, and spokespersons of local and national businesses with e-commerce interests.

DRS General Counsel Richard Nicholson described the most recent proposal for a system of sales tax simplification presented to the Advisory Commission on Electronic Commerce (ACEC) by the National Governor's Association (NGA). This proposal addresses both the concerns of business and state and local governments. (This is available on the NGA Web site: www.nga.org/Internet/Proposal.asp.) Although those attending endorsed no solutions, there was agreement that the success of electronic commerce is important for economic growth in Connecticut, as well as the nation. However, the continued delivery of essential government services must be provided for with a stable tax revenue base.

Summit participants agreed that those of us with concerns should actively communicate with ACEC members, and with other federal lawmakers, to support those proposals that will best

Commissioner

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protect the future of our state and our towns and cities. The ACEC's final report is due to Congress by April 21, 2000. The ACEC can be contacted directly by e-mail through its Web site:

www.ecommercecommission.org

On another topic at the state level, DRS responded to a request by Representative Moira Lyons, Speaker of the Connecticut House of Representatives, to study possible factor relief for the state's manufacturers. Several Connecticut manufacturers have expressed

... this study committee will result in a proposal for tax policy that will strengthen the competitiveness of our state's existing manufacturers as well as encourage new ones to locate here.

concern to her about the statutory three-factor formula (with receipts double-weighted) for determining their tax liability under Connecticut corporation business tax, and they requested tax relief similar to that now offered by several other states. Speaker Lyons asked that DRS prepare a report for the beginning of the 2000 session of the General Assembly in February.

DRS formed the Factor Relief for Manufacturers Study Committee, inviting fifteen participants representing the Office of Policy and Management, Office of Fiscal Analysis and various manufacturing companies, business associations and tax practitioner organizations, in addition to key DRS staff. DRS Attorney Stacey Pavano and Audit Tax Division Chief Joseph A. Thomas chair the committee. It has been meeting monthly, and will continue until its report is finalized.

The committee has identified a number of states which have special apportionment formulas for manufacturers or alternate apportionment formulas for specific industries. Members will be evaluating the methods and rates of corporate taxation and projected economic costs and benefits from these arrangements in each of the states.

All of us are committed to maintaining the stability and positive growth of our state's manufacturing base. We anticipate the efforts of this study committee will result in a proposal for tax policy that will strengthen the competitiveness of our state's existing manufacturers, as well as encourage new ones to locate here. Watch for a summary of our report in the next **DRS Tax News**. ^{T_N}

Internet Purchases

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If purchases were made in connection with carrying on a trade, occupation, business or profession, the purchaser must be registered with DRS for business use tax and must report taxable purchases on **Form OS-114, Sales and Use Tax Return**, for the period in which the taxable purchase was made, and pay any tax that is due.

If a business purchases taxable goods for its own use from an

Internet company or an out-of-state mail-order company and no Connecticut tax is charged by the retailer, the business **must report** the purchase.

DRS also identifies use tax liabilities through periodic audits of businesses registered with Connecticut. In addition, Connecticut has reciprocal agreements with numerous states. These agreements enable Connecticut and other states to share information on purchases subject to use tax.

A resale certificate may only be used to purchase goods or services that are intended for resale in the regular course of business.

The penalty for late payment or underpayment of use tax is 15% of the tax due or \$50, whichever is greater. Interest is charged at the rate of 1% per month or fraction of a month from the due date of the tax return. There are also criminal sanctions for willful failure to file a tax return. ^{T_N}

WE MOVED . . . WE MOVED . . . WE MOVED . . . WE MOVED . . . WE MOVED . . .

The DRS Web site has moved to a new location. Please update your favorite site references and change any other links to our site. The old address is now a link page which will automatically send users to the new location. Our new address is:

www.drs.state.ct.us

1999 Tax Booklets

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- \$10,000** of Connecticut taxable income, and **4.5%** of Connecticut taxable income **above \$10,000**;
- *Head of Household*, **3%** of the **first \$16,000** of Connecticut taxable income, and **4.5%** of Connecticut taxable income **above \$16,000**;
 - *Married Filing Jointly*, **3%** of the **first \$20,000** of Connecticut taxable income, and **4.5%** of Connecticut taxable income **above \$20,000**.

Tax Rate for Single Filers

The personal income tax exemptions and credits for **Single** filers are increased over an eight-year period for taxable years beginning on or after January 1, 2000. **For the period prior to July 1, 2000**, withholding tax and underpayment of estimated tax for single filers should be made without regard to the exemption and credit changes. See **Form CT-1040ES** for more information.

Changes to Social Security Benefits Subject to Tax

For taxable years beginning on or after **January 1, 1999**, Social Security recipients whose filing status is **Single** or **Married Filing Separately** and report a federal adjusted gross income of **less than \$50,000**; or **Married Filing Jointly** or **Head of Household** and report a federal adjusted gross income of **less than \$60,000** are not subject to Connecticut income tax on federally taxable Social Security benefits. Those recipients who meet any of the above conditions and all other Social Security recipients who pay federal income tax on their Social Security benefits should refer to the *Social Security Benefit Adjustment Worksheet* in the **Form CT-1040** or **Form CT-1040NR/PY** instruction booklets.

Innocent Spouse Relief

New tax law changes allow an "innocent" spouse to claim relief from tax, penalty, and interest due on a joint return. In general, both spouses are responsible for paying the full amount of tax, interest or penalties due on a joint return. However, one spouse may not have to pay the tax, interest, and penalties related to the other spouse (or former spouse). If a spouse believes that all or any part of the amount due should be paid only by the other spouse, relief may be requested by filing **Form CT-8857, Innocent Spouse Relief**. See **Special Notice 99(15), Innocent Spouse Relief, Separation of Liability, and Equitable Relief**.

Private Delivery Services Now Accepted as Timely-Filed

When sending forms, returns, or payments to the Department, taxpayers may now use certain private delivery services and satisfy the "timely mailing as timely filing/payment" rule. See *Certain Private Delivery Services Authorized to Meet Timely Filing Requirements* on Page 10.

Credit Card Payments Accepted

Taxpayers may now be eligible to pay their 1999 Connecticut income tax liability by credit card. See *Credit Card Payment Option Now Available* on Page 8.

Form CT-1040EZ TELEFILE, Form CT-1040EZ AND Form CT-1040**Property Tax Credit Increased**

The **maximum** property tax credit allowed for 1999 (on a primary residence or motor vehicle, or both) is **\$425** per return, regardless of filing status. Taxpayers who paid more than \$100 in property tax may be subject to a limitation based on Connecticut Adjusted Gross Income (AGI).

This credit cannot exceed the amount of qualifying property taxes paid or the amount of tax entered on **Form CT-1040**, Line 10, or **Form CT-1040EZ**, Line 4.

Form CT-1040EZ, Form CT-1040, Form CT-1040 NR/PY AND Form CT-1041**Late Payment Rules Changed**

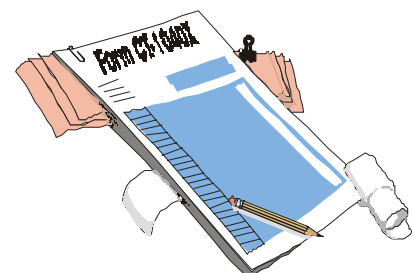
If a request for an extension of time to file an income tax return has been granted, no late payment penalty will be imposed if at least 90% of the income tax shown to be due on **Form CT-1040**, **Form CT-1040EZ**, **Form CT-1040NR/PY** or **Form CT-1041** is paid on or before the original due date of the return and the balance due is remitted with **Form CT-1040**, **Form CT-1040EZ**, **Form CT-1040NR/PY** or **Form CT-1041** on or before the extended due date of the return.

Form CT-1040EZ, Form CT-1040, Form CT-1040 NR/PY, Form CT-1041, Form CT-1120SI AND Form CT-709**Deadline Suspended for Refund Claims of Financially Disabled**

If an individual is financially disabled, the time within which **Form CT-1040X** may be filed is extended for as long as the individual is financially disabled.

Individuals who are unable to manage their own affairs by reason of a medically determinable physical or mental impairment that has lasted or can be expected to last for a continuous period of at least 12 months are considered financially disabled.

An individual is not considered financially disabled during any period that your spouse or any other person is authorized to act on your behalf in financial matters.



1999 Tax Booklets

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**FORM CT-1120, FORM CT-1120S
AND FORM CT-1120SI****Tax Rate Decreases**

Conn. Gen. Stat. §12-214 (a)(1) specifies the effective dates and rate changes to the corporation business tax. Income years and corresponding rates are:

For Income Years Beginning On or After January 1	But Before January 1	Net Income Subject to Tax
1997	1998	10.50%
1998	1999	9.50%
1999	2000	8.50%
2000	-	7.50%

(See *S Corporations Eligible to Claim Corporation Business Tax Credits*, on Page 5.)

**Corporations Annualizing
Estimated Payments**

For income years beginning on or after January 1, 1999, corporations are allowed to make quarterly estimated tax payments using an annualized method. See

Informational Publication

99(12.1), *Calculating Annualized Estimated Corporation Business Tax Installments and Worksheet CT-1120AE*, and **Informational Publication 99(13.1)**, *Calculating Annualized Estimated Corporation Business Tax Installments for S Corporations and Worksheet CT-1120S AE* for further information. (Conn. Gen. Stat. §12-242d)

**Domestic Insurance Companies
Exempt from Corporation
Business Tax**

For income years beginning on or after January 1, 1999, domestic insurance companies are exempt from the Connecticut corporation business tax. (Conn. Gen. Stat. §12-214)

Late Payment Penalty

For income years beginning on or after January 1, 1999, a corporation that has been granted a filing extension may avoid a late payment penalty provided the outstanding

balance due is 10% or less and is paid with the filing of the Corporation Business Tax Return. (1999 Conn. Pub. Acts 121, §6)

**Net Operating Loss
Carryforward Increased**

A corporation is allowed a five-year carryforward for net operating losses incurred prior to income years beginning January 1, 2000, and a twenty-year carryforward for net operating losses incurred in income years beginning on or after January 1, 2000. (1999 Conn. Pub. Acts 173, §39)

**Deduction of the Value of
Capital Gain Realized from the
Sale of Preserved Land**

In arriving at net income, a corporation may deduct from gross income the value of any capital gain realized from the sale of any land, or interest in land, to the state, any political subdivision of the state, or to any nonprofit land conservation organization, where such land is permanently preserved as protected open space or to a water company where such land is to be permanently preserved as protected open space or as Class I or Class II water company land. (1999 Conn. Pub. Acts 235, §5)

**Corporations as Limited
Partners in a Partnership**

For income years beginning on or after January 1, 1999, corporations that are limited partners in a partnership not otherwise carrying on or doing business within the state, other than an investment partnership, may elect to apportion their net income within and outside the state as provided under the provisions of the Connecticut corporation business tax. (1999 Conn. Pub. Acts 121, §4)

**Financial Service Companies
Exempt from Minimum Tax**

For income years beginning on or after January 1, 1999, financial service companies will no longer be subject to the minimum tax (\$250) or the capital base tax. (Conn. Gen. Stat. §12-219)

**Special Apportionment
Available to Financial Service
Companies**

For income years beginning on or after January 1, 1999, a qualifying financial service company is allowed to apportion its net income to Connecticut using a single factor gross receipts formula in which the income is sourced based on the billing address of the financial service company's customers. (Conn. Gen. Stat. §12-218b)

**Passive Investment Companies
(PICs) Exempt from
Corporation Business Tax**

For income years beginning on or after January 1, 1999, a corporation business tax exemption applies to a Connecticut passive investment company (PIC) created by a qualifying financial service company to hold and manage loans that are secured by real property. A PIC must maintain an office in Connecticut and employ at least five full-time equivalent employees. (Conn. Gen. Stat. §12-213)

**Add-back of Intangible Property
Costs and Interest Expenses
Between Related Corporations**

For income years beginning on or after January 1, 1999, a corporation must add-back otherwise deductible intangible property costs and interest expenses paid or incurred, directly or indirectly, in transactions with related corporations, unless it can demonstrate by clear and convincing evidence that such add-back adjustments are unreasonable or it enters into an agreement with the Commissioner to use an alternate method of apportionment. (Conn. Gen. Stat. §12-218c)

**Repeal of Security Brokerage
Services Election**

For income years beginning on or after January 1, 1999, the apportionment election for Securities Brokerage Companies has been eliminated and such companies must apportion their

income to Connecticut based on the location of the securities brokerage firms' customers. (*Conn. Gen. Stat. §12-218*)

Corporation Business Tax Credits

NEW CREDITS

Credit for Displaced Workers Hired by Electric Suppliers

For income years beginning on or after January 1, 1999, a new corporation business tax credit will be allowed to any electric supplier that hires a displaced worker who has been terminated as a direct result of electric industry restructuring. The available credit is \$1,500 for each displaced worker hired for at least six months. (*Conn. Gen. Stat. §12-217bb*)

Small Business Guaranty Fee

For income years beginning on or after January 1, 1999, a new tax credit is available equal to the amount paid during the income year by a small business to the federal Small Business Administration as a guaranty fee to obtain guaranteed financing from the Small Business Administration. (*1999 Conn. Pub. Acts 173, §42*)

Donation of Open Space Land

For income years beginning on or after January 1, 1999, a new credit is available equal to 50% of any donation of open space land. A **donation of open space land** means the value of any land conveyed without financial consideration, or the value of any discount of the sale price in any sale of land or any interest in land to the state, a political subdivision of the state or a nonprofit land conservation organization. The donated land must be permanently preserved as protected open space. The amount of donation shall be based on the use value of the donated open space land. (*1999 Conn. Pub. Acts 173, §47*)

Historic Homes Rehabilitation

For income years beginning on or after January 1, 2000, a new tax credit voucher system will be administered by the Connecticut Historical Commission for rehabilitating historic homes or making contributions to qualified rehabilitation projects. The Connecticut Historical Commission may allocate tax credits in an amount equal to 30% of the projected qualified rehabilitation expenditures. (*1999 Conn. Pub. Acts 173, §§34-37*)

CHANGES TO EXISTING CREDITS

Credit for Fixed Capital Investment

The Fixed Capital Investment Credit increases to 4% for income years beginning on or after January 1, 1999, and to 5% for income years beginning on or after January 1, 2000. (*Conn. Gen. Stat. §12-217w*)

Credit for Human Capital Investment

The Human Capital Investment Credit increases to 4% for income years beginning on or after January 1, 1999, and to 5% for income years beginning on or after January 1, 2000. (*Conn. Gen. Stat. §12-217x*)

Clean Alternative Fuel

The Clean Alternative Fuel Credit is extended to any income year beginning prior to January 1, 2002. (*1999 Conn. Pub. Acts 173, §41*)

NEIGHBORHOOD ASSISTANCE ACT TAX CREDIT

Contributions to open space acquisition funds

A new Neighborhood Assistance Act provision allows a tax credit for contributions made to open space acquisition funds. A 40% credit is available for the donation of money to an open space

acquisition fund of any political subdivision of the state or any nonprofit land conservation organization which qualifies under Conn. Gen. Stat. §12-631(h) and is used for the purchase of land, interest in land or permanent conservation restriction on land, which is to be permanently preserved as protected open space. (*1999 Conn. Pub. Acts 235, §1*)

Program Limitation Increases

For income years beginning on or after January 1, 2000, the amount of available credits for eligible businesses under the Neighborhood Assistance Program increases from \$4 million to \$5 million in any one fiscal year. (*1999 Conn. Pub. Acts 173, §45*)

S Corporations Eligible to Claim Corporation Business Tax Credits

Conn. Gen. Stat. §12-217 provides that an S corporation is eligible to claim corporation business tax credits to the extent and in the same percentage that net income of the S corporation is subject to the corporation business tax. For the 1999 income year, 55% of the S corporation's net income is subject to the corporation business tax. Thus, the corporation may claim 55% of 1999 credits (including carryforwards). The remaining 45% may be carried forward or backward if the credit so allows.

A special rule applies to S corporations claiming a credit under the Neighborhood Assistance Act. Any S Corporation with an income year beginning on or after January 1, 1999, but before December 31, 2000, shall be eligible for the entire available credit under the Act.

Corporations subject to the capital base tax or minimum tax are not affected by the phaseout and may use applicable credits in full. (*1999 Conn. Pub. Acts 83, §1*)

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Housing Program Contribution

For income years beginning on or after January 1, 1999, the total amount of tax credits allowed for investments in low and moderate income housing programs in any one fiscal year, under Conn. Gen. Stat. §8-395, is increased from \$1 million to \$5 million and the tax credit allowed per business firm is increased from \$50,000 to \$75,000. (1999 Conn. Pub. Acts 173, §33)

Research and Experimental Incremental Expenditures Credit

For income years beginning on or after January 1, 2000, the 15-year credit carryforward that has been available only to biotechnology companies will be extended to all corporations. (Conn. Gen. Stat. §12-217j)

Research and Development Nonincremental Expenditures Credit

For income years beginning on or after January 1, 1999, the amount of credit under Conn. Gen. Stat. §12-217n available to businesses that have revenues in excess of \$3 billion, employing more than 2,500 employees and headquartered in an enterprise zone, shall be the tentative credit allowed for research and development expenses or 3.5% of the total expenses, whichever is greater. (1999 Conn. Pub. Acts 1, §28 (June Spec. Sess.))

For income years beginning on or after January 1, 2000, Conn. Gen. Stat. §12-217n allows a 6% credit for research and development nonincremental expenditures incurred by qualified small businesses. For purposes of this credit a qualified small business is defined as a business that reports gross income of \$100 million or less in the previous income year.

Exchange of Tax Credits

For income years beginning on or after January 1, 2000, a qualified small business may exchange tax credits available under Conn. Gen. Stat. §12-217j (tax credit for research and experimental expenditures) and Conn. Gen. Stat. §12-217n (rolling tax credit for research and development). This only applies to credits that can not be "taken" in the taxable year in which the credit could otherwise be taken as a result of having no tax liability under the corporation business tax. Any credit that can be carried forward may be exchanged with the state for a cash payment equal to 65% of the value of the credit or carried forward at full value. (1999 Conn. Pub. Acts 173, §38)

Opportunity Certificate Credit

For income years beginning on or after January 1, 1999, to meet the requirements for the Opportunity Certificate Tax Credit under Conn. Gen. Stat. §12-217y, a qualifying employee must work 25 hours per week for the 1999 fiscal year and 30 hours per week for fiscal year 2000 and thereafter. Also, the number of hours per week an employee participates in a job training program approved by the Labor Commissioner shall be included in calculating the number of hours such employee is employed. (1999 Conn. Pub. Acts 203, §1)

FORM CT-112S AND FORM CT-1120SI

Phaseout of S Corporation Business Tax

Conn. Gen. Stat. §12-217(c)(2) provides for the phaseout of the S corporation business tax by reducing the percentage of net income subject to corporation business tax for income years beginning on or after January 1, 1997. For income years beginning on or after January 1, 2001, S corporations will no longer be subject to the corporation business tax.

S corporation shareholders will pay personal income tax on the portion of their pro-rata share of nonseparately stated income as well as their Connecticut sourced portion of their pro rata share of separately stated income, that is not subject to the corporation business tax when filing **Form CT-1040**, **Form CT-1040NR/PY**, **Form CT-1120SI** or **Form CT-G**.

For Income Years Beginning On or After January 1	But Before January 1	Net Income Subject to Tax
1997	1998	90%
1998	1999	75%
1999	2000	55%
2000	2001	30%
2001	—	0%

FORM CT-1040EZ, FORM CT-1040, FORM CT-1040 NR/PY, FORM CT-1041, FORM CT-1120SI, AND FORM CT-1065

Reporting Federal Changes

If a taxpayer fails to report a change or correction by the Internal Revenue Service, a notice of proposed deficiency may be mailed at any time. If a taxpayer fails to report a change or correction by tax officers of another jurisdiction, a notice of proposed deficiency assessment may be mailed to the taxpayer at any time.

If a taxpayer reports a change or correction by the Internal Revenue Service, an assessment, if not deemed to have been made upon the filing of the report, may be made at any time not later than three years after the report is filed. If a taxpayer reports a change or correction by tax officers of another jurisdiction, the assessment, if not deemed to have been made upon the filing of the report, may be made not later than three years after the report is filed. (1999 Conn. Pub. Acts 121, §25)

FORM CT-1041***Estates or Trusts With Investments in S Corporations***

Each estate or trust that is a shareholder of an S corporation subject to the Connecticut corporation business tax must, for the 1999 income year, include 55% of its pro rata share of the S corporation's nonseparately computed income or loss, multiplied by the S corporation's corporation business tax apportionment percentage, in computing **Form CT-1041, Schedule A, Connecticut Fiduciary Adjustments**.

The Connecticut corporation business tax on S corporations is being phased out over a five-year period, beginning with the 1997 taxable year. This affects the modification to federal taxable income.

If the estate or trust is a shareholder of an S corporation that is subject to the Connecticut corporation business tax, and the S corporation's taxable year for federal income tax purposes is the *calendar year*, they would multiply 55% of its pro rata share of the S corporation's nonseparately computed income or loss by the S corporation's Connecticut corporation business tax apportionment percentage and enter this amount on **Form CT-1041, Line 3**. (In computing **estimated Connecticut taxable income for 2000**, follow the preceding instructions, but substitute 30% for 55%.)

If the estate or trust is a shareholder of an S corporation that is subject to the Connecticut corporation business tax and the S corporation's taxable year for federal income tax purposes is *other than the calendar year*, they would multiply 75% of its pro rata share of the S corporation's nonseparately computed income or loss by the S corporation's Connecticut corporation business tax apportionment percentage and enter this amount on **Form CT-1041, Line 3**. (In computing

your **estimated Connecticut taxable income for 2000**, follow the preceding instructions, but substitute 55% for 75%.)

The estate's or trust's pro rata share of the S corporation's nonseparately computed loss will be reported on federal Form 1120S, Schedule K-1, furnished to the estate or trust by the S corporation. The S corporation's Connecticut corporation business tax apportionment percentage will be furnished to the estate or trust by the S corporation.

If any federal limitations apply, the estate or trust must add back only 55% of the net loss (75% of the net loss if the S corporation's taxable year is *other than the calendar year*) included on federal Schedule E, multiplied by the S corporation's Connecticut corporation business tax apportionment percentage. **T_N**

1999 CONNECTICUT PACKAGE X

The 1999 Connecticut Package X, containing over 100 of the most recently revised versions of commonly used income, sales and use taxes, corporation, and gift tax forms will soon be available.

Package X also includes certificates used to claim exemptions from sales and use taxes and several corporation business tax credit forms.

Order your **1999 Connecticut Package X** now for January delivery. Send a printed or typed request (including name, company name, and complete mailing address) along with a check for \$13.00 per copy to:

**DRS, Forms Unit-Package X
25 Sigourney Street
Hartford CT 06106**

Make checks payable to "DRS." Copies will be sold in January at the DRS Registration Section, 25 Sigourney Street, for \$8.00 per copy. Call DRS to verify availability. **T_N**

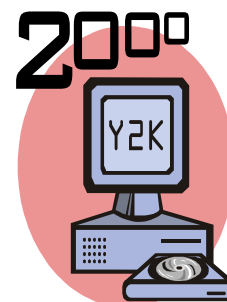
1999 Connecticut Sales Tax Rebate Update

On September 23, 1999, DRS began refunding Connecticut surplus revenues back to qualified taxpayers in the form of Sales Tax rebates. As of December 14, 1999, 1.4 million Rebates have been issued.

Rebate checks will continue to be distributed in 2000. However, due to technical problems the mailout of rebate checks to Social Security recipients has been delayed. DRS is working with the Social Security Administration to identify Connecticut Social Security recipients who are eligible to receive a rebate. More rebates will be issued during 2000. **T_N**

Counting Down to Y2K

After almost two years of preparing for Y2K, DRS is quietly counting down the days to 2000, confident that all systems are Y2K compliant and that DRS stands ready to continue business



as usual into the new year. The DRS Y2K Project Team worked closely with the Department of Information Technology (DOIT) in

testing all Agency systems and received the highest level of certification of preparedness from DOIT.

DRS Commissioner Gene Gavin confidently affirms, "DRS is Y2K compliant." He is extremely proud of the tremendous effort put forth by Agency staff to successfully complete the difficult task of upgrading its many systems while continuing to maintain, and even increase, services provided to Connecticut taxpayers.

Commissioner Gavin feels that even "in the unlikelyhood of a Y2K glitch," DRS will be ready. The

Understanding Connecticut Taxes Clearly Coming Soon to a Town Near You!

The Connecticut Department of Revenue Services is pleased to offer *Understanding Connecticut Taxes Clearly*, a free program designed to provide a broad overview of Connecticut tax requirements for new and existing small businesses.

Classes for Spring 2000 have been scheduled. Please plan ahead and register now.

Classes are limited to 40 participants and preregistration is required. Programs are held from 6:30 p.m. to 9:00 p.m.

SPRING 2000 SCHEDULE

January 6	January 27
Hartford	Stamford
February 3	February 24
New Haven	Danbury
March 2	March 9
Norwich	Waterbury
May 4	May 11
Enfield	Norwalk

Make reservations to attend a *UC Taxes Clearly* seminar by contacting DRS:

TELEPHONE

860-297-5962

(Hartford area or out-of-state) or

1-800-382-9463

(toll-free within Connecticut)

(weekdays 8:00 a.m. to 5:00 p.m.)

INTERNET

www.drs.state.ct.us

T_N

Y2K

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Agency has full backup capabilities in place as a result of participating in a statewide contingency program coordinated by DOIT.

Commissioner Gavin says, "the Agency looks forward to providing taxpayers with continued service excellence in 2000 and beyond." T_N

Some Due Dates Extended Because of Holidays

If a due date for tax filing falls on a Saturday, Sunday or legal holiday, the next business day is the due date.

The following are tax filing due dates that are extended:

January 18, 2000 - 4th quarter 1999 Estimated Tax Payment. (The January 15th due date is extended because it falls on a Saturday and January 17th is Martin Luther King, Jr. Day.)

April 18, 2000 - 1999 Calendar Year Filers of Income Tax Returns, 1st quarter 2000 Estimated Tax Payment, 1999 Connecticut Gift

Tax Return, Connecticut S Corporation Income Tax Return, and Connecticut Income Tax Return for Trusts and Estates. (The April 15th due date is extended because it falls on a Saturday and April 17th is Patriots' Day in Massachusetts.

Connecticut taxpayers send federal returns to the IRS Service Center located in Andover, MA.)

January 16, 2001 - 4th quarter 2000 Estimated Payment. (The January 15th due date is extended because January 15th falls on Martin Luther King, Jr. Day.) T_N

Credit Card Payment Option Now Available

For the first time, some Connecticut residents may be eligible to pay their 1999 Connecticut income tax liability by credit card. Taxpayers that filed a 1998 Connecticut income tax return may be able to pay the amount they owe by credit card. Commissioner Gavin expressed, "This is a convenient option that taxpayers have requested and we are pleased to be able to provide it." Discover®, MasterCard® and American Express Card® are the accepted

credit cards. Taxpayers should have their credit cards ready, and call toll-free **1-888-2PAY-TAX** (1-888-272-9829). They will be asked to enter Connecticut's code: **1777**. A convenience fee will be charged by the credit card service provider. The fee will range from 3% to 6% of the amount charged, with a minimum fee of \$3.00. Taxpayers will be informed of the amount of the convenience fee during the telephone call, and may elect to cancel the transaction. T_N

Payment Amount		Fees	Payment Amount		Fees
From:	To:		From:	To:	
0	99.99	\$ 3	7,400	8,699.99	\$ 218
100	199.99	\$ 6	8,700	10,399.99	\$ 262
200	399.99	\$ 11	10,400	12,999.99	\$ 329
400	599.99	\$ 16	13,000	17,399.99	\$ 437
600	999.99	\$ 25	17,400	20,999.99	\$ 525
1,000	1,399.99	\$ 35	21,000	27,999.99	\$ 699
1,400	1,999.99	\$ 49	28,000	35,999.99	\$ 899
2,000	2,699.99	\$ 68	36,000	44,999.99	\$1,125
2,700	3,499.99	\$ 87	45,000	54,999.99	\$1,375
3,500	4,399.99	\$109	55,000	65,999.99	\$1,649
4,400	5,399.99	\$133	66,000	76,999.99	\$1,925
5,400	6,399.99	\$159	77,000	87,999.99	\$2,199
6,400	7,399.99	\$187	88,000	99,999.99	\$2,499

Connecticut Accepts Federal PTIN Numbers

Paid preparers may now enter their Federal Employer Identification Number, Social Security Number or Preparer's Tax Identification Number (PTIN) on Connecticut personal income tax returns.

PTIN numbers are available from the IRS as an alternative to using a Social Security Number. DRS **does not** issue its own PTIN's. T_N

Connecticut Tax Calendar

If the due date falls on a Saturday, Sunday or legal holiday, the next business day is the due date.

DECEMBER

- 1** Corporation Business Tax Return for year ending August 1999
- 15** S Corporation Business Tax Return for year ending August 1999
- Connecticut Income Tax Return for Individuals, Trusts and Estates for year ending August 1999
- Connecticut Group Income Tax Return for year ending August 1999
- Connecticut Composite Income Tax Return for year ending August 1999
- Estimated Corporation Business Tax Payment
Form CT-1120 ESA for year ending September 2000
Form CT-1120 ESB for year ending June 2000
Form CT-1120 ESC for year ending March 2000
Form CT-1120 ESD for year ending December 1999
- Estimated Insurance Premiums Tax Payment, 4th Installment
- Unrelated Business Income Tax Return (Foreign Trusts)
- Estimated Health Care Centers Tax Payment, 4th Installment 1999
- 25** Motor Vehicle Fuels Tax Return
- 31** Admissions and Dues Tax Return
- Room Occupancy Tax Return — Monthly Filers
- Sales and Use Taxes Return — Monthly Filers

JANUARY

- 1** Corporation Business Tax Return for year ending September 1999
- 15** S Corporation Business Tax Return for year ending September 1999
- Connecticut Income Tax Return for Individuals, Trusts and Estates for year ending September 1999
- Connecticut Group Income Tax Return for year ending September 1999
- Connecticut Composite Income Tax Return for year ending September 1999
- Estimated Connecticut Income Tax Payment for Individuals, Trusts and Estates, 4th Installment 1999
- Estimated Connecticut Group Income Tax Payment 4th Installment 1999
- Estimated Connecticut Composite Income Tax Payment 4th Installment 1999
- Estimated Corporation Business Tax Payment
Form CT-1120 ESA for year ending October 2000
Form CT-1120 ESB for year ending July 2000
Form CT-1120 ESC for year ending April 2000
Form CT-1120 ESD for year ending January 2000
- Estimated Insurance Premiums Tax Payment, 4th Installment
- Unrelated Business Income Tax Return (Foreign Trusts)
- 25** Motor Vehicle Fuels Tax Return
- 31** Admissions and Dues Tax Return
- Connecticut Quarterly Reconciliation of Withholding

(JANUARY, continued)

- Room Occupancy Tax Return — Monthly and Quarterly Filers
- Connecticut Quarterly Reconciliation of Withholding
- Dry Cleaning Surcharge Return
- Hospital Gross Earnings Tax Return
- Motor Carrier Road Tax Return
- Petroleum Companies Gross Earnings Tax Return
- Sales and Use Taxes Return — Monthly and Quarterly Filers

FEBRUARY

- 1** Corporation Business Tax Return for year ending October 1999
- 15** S Corporation Business Tax Return for year ending October 1999
- Connecticut Income Tax Return for Individuals, Trusts and Estates for year ending October 1999
- Connecticut Group Income Tax Return for year ending October 1999
- Connecticut Composite Income Tax Return for year ending October 1999
- Estimated Corporation Business Tax Payment
Form CT-1120 ESA for year ending November 2000
Form CT-1120 ESB for year ending August 2000
Form CT-1120 ESC for year ending May 2000
Form CT-1120 ESD for year ending February 2000
- 25** Motor Vehicle Fuels Tax Return
- 29** Admissions and Dues Tax Return
- Room Occupancy Tax Return — Monthly Filers
- Sales and Use Taxes Return — Monthly Filers
- Connecticut Annual Reconciliation of Withholding
- Connecticut Annual Summary and Transmittal of US Informational Returns

March

- 1** Corporation Business Tax Return for year ending November 1999
- 15** S Corporation Business Tax Return for year ending November 1999
- Connecticut Income Tax Return for Individuals, Trusts and Estates for year ending November 1999
- Connecticut Group Income Tax Return for year ending November 1999
- Connecticut Composite Income Tax Return for year ending November 1999
- Estimated Corporation Business Tax Payment
Form CT-1120 ESA for year ending December 2000
Form CT-1120 ESB for year ending September 2000
Form CT-1120 ESC for year ending June 2000
Form CT-1120 ESD for year ending March 2000
- 25** Motor Vehicle Fuels Tax Return
- 31** Admissions and Dues Tax Return
- Room Occupancy Tax Return — Monthly Filers
- Sales and Use Taxes Return — Monthly Filers



RULINGS OF THE CONNECTICUT DEPARTMENT OF REVENUE SERVICES



The following rulings, summarized below, were recently released by the Department's Legal Division. To obtain a complete text of any ruling visit the DRS Web site (www.drs.state.ct.us), or send your name, mailing address, and the number of the ruling or rulings to: **Department of Revenue Services, Forms Unit, 25 Sigourney Street, Hartford, CT 06106-5032**

Ruling No. 99-4

INCOME TAX

The Connecticut Portfolio's interest income derived from the Connecticut State or Local Bonds will retain in the hands of an Investor its character as interest income that is derived from the Connecticut State or Local Bonds.

In the case of an Investor that is a regulated investment company, a distribution by the Investor, to a shareholder who is an individual, of exempt-interest dividends, as defined in 26 U.S.C. §852(b)(5), that are derived from interest income properly allocable to the Connecticut State or Local Bonds is not required to be added to such shareholder's federal adjusted gross income in computing his or her Connecticut adjusted gross income.

In the case of an Investor that is a regulated investment company, a distribution by the Investor, to a shareholder which is a trust or estate, of exempt-interest dividends, as defined in 26 U.S.C. §852(b)(5), that are derived from interest income properly allocable to the Connecticut State or Local Bonds is not required to be taken into account in computing the Connecticut fiduciary adjustment.

Ruling No. 99-5

CORPORATION TAX

An Investor that is a regulated investment company and that is subject to the corporation business tax may deduct from its gross income the sum of (1) distributions to its shareholders of exempt-interest dividends that are derived from interest income properly

allocable to State or Local Bonds held by a Portfolio and (2) expenses, bond premium, and interest that are related thereto and that are disallowed as deductions for federal income tax purposes.

Ruling No. 99-6

CONTROLLING INTEREST TRANSFER TAX

Within a controlled corporate group, the merger of a first-tier subsidiary of a parent corporation into its own subsidiary, which owns Connecticut real property, is not a transfer subject to the controlling interest transfer taxes where the same interest that indirectly controls the corporation holding the real estate before the merger, directly controls the corporation holding the real estate after the merger. T_N

1999 Connecticut Telefiling Program is the Largest Ever

The Connecticut Telefile tax booklets will be mailed to 700,000 state taxpayers at the end of December. This year the maximum Connecticut Adjusted Gross Income has been increased to \$160,000. There are two variations of Telefile tax booklets: a personalized, Telefile only, book is sent to 1998 telefilers and to a select group who have been identified as highly likely to telefile; and a combination book which includes an invitation to telefile with the Telefile materials, as well as the standard **Form CT-1040EZ** package.

Each Telefile book contains a unique Personal Identification Number (PIN) that is used when the taxpayer calls to telefile. The PIN number is also needed when a taxpayer calls to verify the status of their refund.

Telefile begins on January 18th and ends at midnight on April 18, 2000.

Only those taxpayers who received a Telefile book (either the personalized or combination) in the mail may Telefile. DRS will **not** give out additional telefile booklets or PIN numbers.

If a taxpayer identifies an error after completing their Telefile Return they must amend their return by using **Form CT-1040X**. If the taxpayer must amend the telefiled return and does not have a record of the information filed, they can request a copy of the Telefile Return by completing an **LGL-002, Request for Disclosure of Tax Return or Tax Return Information Reported on a Tax Return**. T_N

Certain Private Delivery Services Authorized to Meet Timely Filing Requirements

Certain private delivery services, in addition to the U.S. Postal Service, are now authorized to deliver returns, claims, statements or other documents or payments to DRS for the purposes of the "timely mailing as timely filing/payment" provisions set forth in Conn. Gen. Stat. §12-39aa. This became effective October 1, 1999.

DRS has accepted the list of private delivery services that is currently published by the Internal Revenue Service. This list is subject to change, and not all types of delivery by these services are approved. See **Special Notice 99(14), Designated Private Delivery Services**.

The following is the current list of designated private delivery services:

- **Airborne Express (Airborne):**
 - Overnight Air Express Service
 - Next Afternoon Service
 - Second Day Service
- **DHL Worldwide Express (DHL):**
 - DHL "Same Day" Service
 - DHL USA Overnight
- **Federal Express (FedEx):**
 - FedEx Priority Overnight
 - FedEx Standard Overnight
 - FedEx 2Day
- **United Parcel Service (UPS):**
 - UPS Next Day Air
 - UPS Next Day Air Saver
 - UPS 2nd Day Air
 - UPS 2nd Day Air A.M. T_N

DRS Tax Product Update

DRS recently issued the following tax products. DRS forms and publications are available any hour of the day, seven days a week, by visiting the **DRS Web site** at www.drs.state.ct.us or by calling **DRS TaxFax** at **860-297-5698** from the handset attached to your fax machine.

Forms and publications can be ordered by **E-mail** at ctforms@po.state.ct.us, or by calling **CONN-TAX**, the DRS information line. Call **1-800-382-9463** (toll-free from within Connecticut) and select **Option 2** or **860-297-4753** (from anywhere) 24 hours a day, to order forms and publications.

ANNOUNCEMENTS

AN 99(1.1), Obtaining Connecticut Informational Publications in Booklet Form

AN 99(2.3), Quarterly List of Distributors for Motor Vehicle Fuels Tax Purposes

INFORMATIONAL PUBLICATIONS

IP 99(4.3), "Numerical" Index to Rulings and Administrative Pronouncements as Affected, If At All, by Later-Issued Rulings and Pronouncements

IP 99(5.3), Topical Index to Rulings and Administrative Pronouncements Covering Sales and Use Taxes

IP 99(6.3), Topical Index to Rulings and Administrative Pronouncements Covering Miscellaneous Taxes and Administrative Topics

IP 99(7.3), Topical Index to Rulings and Administrative Pronouncements Covering Income Tax

IP 99(8.3), Topical Index to Rulings and Administrative Pronouncements Covering Corporation Business Tax

IP 99(11.1), Business Taxes

IP 99(18), Sales and Use Taxes Guide for Manufacturers, Fabricators and Processors

IP 99(19), Building Contractors' Guide to Sales and Use Taxes

IP 99(21), Getting Started in Business

IP 99(25), 1999 Connecticut Magnetic Media Filing Requirements for Federal Forms 1099-MISC, 1099-R, 1099-S and W-2G

IP 99(26), 1999 Connecticut Magnetic Media Filing Requirements for Federal Form W-2

IP 99(27), Q&A: The 1999 Connecticut Sales Tax Rebate

IP 99(28), Q&A on the Connecticut Individual Use Tax

IP 99(31), ELF Brochure (Federal/State Electronic Tax Filing Program)

IP 99(32), Connecticut Income Tax Information for Armed Forces Personnel and Veterans

IP 99(34), Q&A: Income Tax Credit for Property Taxes Paid to a Connecticut Political Subdivision

SPECIAL NOTICES

SN 99(11), 1999 New York State Legislation Affecting The Connecticut/New York Reciprocal Tax Program

SN 99(12), Sales and Use Tax Exemption for Nonprescription Drugs and Medicines

SN 99(13.1), "Pay When Paid" Method for Materialmen

SN 99(14), Designated Private Delivery Services

POLICY STATEMENTS

PS 99(4), Your Rights as a Connecticut Taxpayer

PS 99(5), Refuse and Sanitary Waste Removal Companies

CERTIFICATES

CERT-103, Residential Condominium Association Certificate

CERT-110, Aircraft Repair Services Certificate, Aircraft Repair and Replacement Parts Certificate

CERT-116, Certificate for Exempt Purchases of Tangible Personal Property for Low and Moderate Income Housing Facilities

Updated Sales Tax Guides Now Available

The Department of Revenue Services recently reissued both **Informational Publication 99(19)**, *Building Contractors' Guide to Sales and Use Taxes* and **Informational Publication 99(18)**, *Sales and Use Taxes Guide for Manufacturers, Fabricators and Processors*. They are now available from the Department.

These booklets, as well as all other DRS pronouncements, are available from the DRS Web site (www.drs.state.ct.us) for reading and downloading at no cost.

To have copies of informational publications in booklet form mailed to you, provide a 9" x 12" self-addressed envelope, with the amount of postage affixed as listed below. The postage stated for mailing each publication is the cost of first class delivery by the United States Postal Service of one copy of the requested booklet to an addressee anywhere in the United States.

To order **Informational Publication 99(19)**, *Building Contractors' Guide to Sales and Use Taxes*, send a self-addressed envelope with **\$1.87 postage affixed** to:

Department of Revenue Services
Mail Unit, Building Contractors' Guide
25 Sigourney Street
Hartford, CT 06106-5032

To order **Informational Publication 99(18)**, *Sales and Use Taxes Guide for Manufacturers, Fabricators and Processors*, send a self-addressed envelope with **\$1.87 postage affixed** to:

Department of Revenue Services
Mail Unit, Manufacturer's Guide
25 Sigourney Street
Hartford, CT 06106-5032

For Tax Forms, Publications or Personal Assistance

- Visit the DRS Web site: www.drs.state.ct.us



- Call CONN-TAX at 1-800-382-9463 (toll-free from within Connecticut) or 1-860-297-5962 (from anywhere)

TTY, TDD, and Text Telephone users only may transmit inquiries 24 hours a day, seven days a week by calling 860-297-4911.

- Write to: Department of Revenue Services
Taxpayer Services Division
25 Sigourney Street
Hartford, CT 06106-5032



Forms and publications may be obtained 24 hours a day, seven days a week, by using any of the following resources.



Internet: Preview and download forms from the DRS Web site at www.drs.state.ct.us

DRS TaxFax: Call 860-297-5698 from the handset attached to your fax machine



E-mail: E-mail your request for forms to:
ctforms.drs@po.state.ct.us

Telephone: From a touch-tone phone 24 hours a day call 1-800-382-9463 (toll-free from within Connecticut) and select Option 2 or 860-297-4753 (from anywhere) (DRS Forms Unit).



For free assistance on forms, visit our offices from 8:00 a.m. to 5:00 p.m. (Monday through Friday). For pre-recorded directions to DRS offices, call CONN-TAX. If you require special accommodations, please advise the Department representative.

BRIDGEPORT	HAMDEN	HARTFORD	NORWICH	WATERBURY*
10 Middle St. 203-579-6251	3074 Whitney Ave., Bldg 2 203-287-8243	25 Sigourney St. 860-297-5962	2 Cliff St. 860-889-2669	91 Schrafts Dr. 203-596-4310

*This office will be moving soon. To verify the address, please call before you visit.



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This newsletter is designed to provide general information to taxpayers and tax practitioners. It is not designed to explain in depth a current Department policy affecting the liability of taxpayers. Nothing in this publication supersedes, alters, or otherwise changes the provisions of the Connecticut General Statutes, regulations, Department rulings or tax information publications.

**Gene Gavin,
Commissioner**

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